The Hamilton Group Limited

Annual Report 1974

Cancorp

The Hamilton Group Limited

HIGHLIGHTS

	1974	1973
Gross income	$ 40,213,916.00	$28,377,074.00
Income before extraordinary items	$ 945,443.00	$ 1,804,699.00
Earnings available for common shares	$ 963,254.00	$ 1,243,049.00
Earnings per share		
Income before extraordinary items	$ .32	$ .76
Net income	$ .38	$ .56
Dividends paid	$ .28	$ .26
Total assets at the year end	$137,879,692.00	$95,665,872.00
Average number of common shares outstanding	2,522,932	2,224,530
Common shares owned in Canada	72.6%	97.7%

CONTENTS

The Hamilton Group Limited

DIRECTORS AND OFFICERS

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7L 4Y7

DIRECTORS:

George L. Davis	Chairman, Citicorp Leasing Group
Graham R. Dawson	President, Dawson Construction Ltd.
Edward G. Harshfield*	Senior Vice-President, Citicorp Leasing Inc.
Brian Livsey*	Managing Director, Citicorp Leasing Inc.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk*	President, North America Business Equipment Limited and The Medi-Dent Service Limited
Robert N. Steiner	Retired Partner, A. E. Ames & Company
Alan B. Young*	Senior Vice-President, The Hamilton Group Limited
David M. Young*	Senior Vice-President, The Hamilton Group Limited
James M. Young	Vice-President, The Hamilton Group Limited
W. H. Young*	President, The Hamilton Group Limited

* Members of the Executive Committee

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
John F. Schunk	Vice-President
James M. Young	Vice-President
Paul A. Southall	Vice-President and Secretary

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

The Hamilton Group Limited continued its rapid growth in assets during its fiscal year that ended on April 30, 1974. However, sharply increasing rates of interest throughout the year caused a reduction in income. This, together with reduced income from investments, resulted in lower earnings than for the previous year.

Highlights of the year were:

- An increase of 44% in total assets to $137,879,692.
- An increase of 56% in leases receivable to $132,455,999.
- An increase of 46% in mortgages receivable to $12,026,880.
- An increase of 121% in the cost of borrowed funds.
- A decrease of 48% in net earnings before extraordinary items.
- Acquisition of a 50% interest in Canaplan Leasing Limited.

FINANCIAL

Consolidated income before extraordinary items and minority interests was $1,005,782 for the year ended April 30, 1974, compared to $1,825,914 for the previous year.

After providing for minority interests and the extraordinary item of $147,000 income tax recovery, earnings per common share were 38c. Common share dividends were maintained at a quarterly rate of 7c per share throughout the year.

In June, 1973, Citicorp Leasing International (CLI) subscribed for the second of three draws of 130,000, $10 par value, Series B convertible preferred shares and it arranged for a term loan of $3 million in Canadian Funds of 8.45% debentures effective March 31, 1974. The final draw under the agreement with CLI, as set out in the 1971 annual report, is due on December 31, 1974. The entire holding of convertible preferred shares of CLI was converted into 780,000 common shares of Hamilton Group in March, 1974 in accordance with their terms. As a result there were 3,020,850 common shares outstanding at the year end.

Revaluation of marketable securities to their quoted price at April 30, 1974 resulted in a reduction in their book value of $233,508 which was charged to the profit and loss account compared to a gain of $74,144 for the previous year.

A charge of $204,597 was made to profit in the year representing start-up costs of the Labhire Group in France and Germany. Labhire is wholly-owned by HGL (U.K.) Finance Limited.

Hamilton Group realized a profit of $154,478 on the sale of fixed assets, principally from the sale of property at Ajax, Ontario, which formed part of its former textile business. This compares to a profit of $34,410 a year ago for similar reasons.

Investment income was $418,902 for the year, compared to $474,539 for the previous year despite the fact that for reasons reported hereafter, income from Hamilton Leasing Limited this year was only $62,493, against $348,834 included in investment income in the previous year.

German taxes authorities have claimed payment of approximately 2,000,000 DM resulting from the gain on the sale of Hamilton Group's shareholding in Maschinen Miete GmbH which was detailed in the Company's 1970 annual report. Hamilton Group is claiming losses suffered in prior years in Germany as an offset. The case has yet to be finally resolved.

Hamilton Group continued throughout 1974 to have a very high percentage of its total borrowing in demand funds, the interest costs of which were immediately increased with changes in the prime rate. Loans were arranged in Canadian, United States and Eurodollar markets. Obligations maturing within one year in non-Canadian currencies were hedged.

Increases in lease and mortgage rates to offset the increasing cost of borrowed funds were made during the year but the time lag before older business at lower rates is fully replaced means a narrowing of profit margins.

It did not appear practical to secure term borrowing for the Company under conditions prevailing in financial markets during the year.

CITICORP LEASING INTERNATIONAL (CLI)

On August 1, 1974 it was announced that Hamilton Group and CLI had signed a letter of intent to form a new company to develop the equipment financing business in Canada. This new company will acquire from Hamilton Group all of the shares of North America Business Equipment Limited, The Medi-Dent Service Limited and Direct Leasing Limited, as well as certain of the assets of CLI's own Canadian leasing branches. Hamilton Group will own 40% of the shares in the new company and CLI 60%. The new company will be the sole interest of Hamilton Group and CLI in the Canadian equipment financing market in the future.

At the same time CLI's substantial shareholding in The Hamilton Group Limited will be retired.

CLI will be responsible for arranging the financing of the new company. CLI is a wholly-owned subsidiary of Citicorp of New York.

Before they can become effective, the proposals with CLI must be approved by the Foreign Investment Review Agency in Ottawa, The Federal Reserve Board in the U.S.A., Hamilton Group shareholders and other regulatory agencies.

DIRECTORS

Mr. Alan V. Young, the Honorary Director of the Company, and Mr. Francois E. Cleyn died during the year.

Mr. Young was associated with the Company for over 67 years, having joined the then Hamilton Cotton Company in 1906. He became its President in 1915 and the Chairman of its Board of Directors in 1961. In September, 1971 he was made an Honorary Director. His leadership during his active years in the Company and his advice and support of changes in recent years made a major contribution to the success of Hamilton Group.

Mr. Cleyn was first elected to the Board of Directors in September, 1972. He brought to the Board the benefit of his wide experience as an economist and industrialist. In the short period that he was associated with Hamilton Group his interest and counsel were of great value to the Company.

Mr. Stephen Eyre, Senior Vice-President of First National City Bank, and Mr. Raymond O. Young and Mr. T. R. Wienert, Vice-Presidents of Citicorp Leasing International Inc., resigned from the Board on being assigned new responsibilities within their own organization. Both Mr. Eyre and Mr. Young had been members of the Hamilton Group Board since 1971 when the original agreement with Citicorp Leasing International became effective. Mr. Wienert was elected to the Board in 1973. Their help and advice was much appreciated by the Board members and senior officers of the Company.

Mr. E. G. Harshfield, Senior Vice-President of Citicorp Leasing Inc., joined the Board in June, 1974.

CANADA

FINANCIAL SERVICES

Equipment Leasing: Direct Leasing Limited

The Medi-Dent Service Limited and

North America Business Equipment Limited (NABEL Leasing)

Leases receivable added during the year ended April 30th, 1974 were 56% greater than those added during fiscal year 1973, $75.4 million versus $48.3 million. This large increase was in part due to the acquisition, during February, 1974, of the leasing portfolio of Avco Financial Services Canada Limited. This portfolio of approximately 7,000 leases is very similar in makeup to that of NABEL Leasing.

Lease income did not show a gain proportional to leases receivable added, as the Avco portfolio only produced income for two months of the fiscal year. However, the increase in income of 36% from $24.2 million to $32.9 million was more than satisfactory. Earned income also increased 36% to $13.3 million from $9.8 million. General and administrative expenses were well controlled and their increase of 24.5%, from $3.4 million to $4.3 million, was at a lower rate than the previous year. Despite this performance, net income before taxes for fiscal 1974 was down 37.6% from the previous year. This reduction was due to the unpredicted and rapid rise in the cost of borrowed funds of 93% to $6.6 million in 1974 from $3.4 million in 1973. A graphic presentation of these results is shown on page 8.

As at April 30, 1974, leases receivable were $115 million. This is the first year end that Canadian leasing receivables have exceeded $100 million. Total assets applicable to Canadian leasing also passed this mark for the first time as they were $101 million at year end.

During the year lease rates were increased on three occasions and are now providing record yields. However, the increase in the average yield of the entire leasing portfolio was not as great, or as rapid, as the increase in interest rates. Canadian leasing operations will show a major improvement when interest rates stabilize or decline.

Net losses decreased to 0.66% of leases receivable from 0.71% in the previous year. Further improvement can be made in the present year. The reserve for losses was maintained at 1.6% of leases receivable and stands at $2,323,851 at the year end.

Competition from approximately thirty new leasing companies, who commenced operations in Canada within the last two years, is placing additional strain on margins already squeezed by the rapid increase in interest rates. Despite this competitive environment, fiscal 1975 should show a satisfactory increase in business volume with profit performance largely dependent on the level of interest costs.

Automotive Leasing: Canaplan Leasing Limited

In November, 1973, Hamilton Group Limited completed the purchase of a 50% interest in Canaplan Leasing Limited. Canaplan is a Montreal based automotive and transportation equipment leasing company which services a leasing area not previously serviced by the Canadian leasing operations of Hamilton Group. Besides expansion of the Group services, Canaplan is a profitable, well-managed company with great potential for growth, particularly outside the Province of Quebec, where Canaplan has concentrated its business to date. Canaplan has opened an Ontario office at 5050 South Service Road, Burlington, Ontario to service the Toronto and Niagara Pensinsula markets, and further expansion is anticipated.

CANADA

Mortgage Loans: Charter Credit Corporation

Charter Credit had an excellent year and mortgages receivable increased 46% from $8,227,566 to $12,026,880. Charter has substantially increased its volume of business in its primary market in the Province of Quebec and this year it took its first step in geographic expansion and opened an office in Ontario at 5050 South Service Road, Burlington, Ontario. It is anticipated that this expansion into the Ontario market will provide a substantial growth in the next few years.

Factoring: International Mercantile Factors Limited

Hamilton Group has retained a 50% interest in this factoring operation. The reduction to 40% announced in the last annual report was not carried out.

Earnings of IMF during the year ended December 31st, 1973 showed an impressive growth over the forecast. However, volume of business related to new accounts did not increase as much as had been expected. On the other hand, potential for increase in other metropolitan areas of Canada, outside Montreal, remains unrestricted.

CANADIAN LEASING

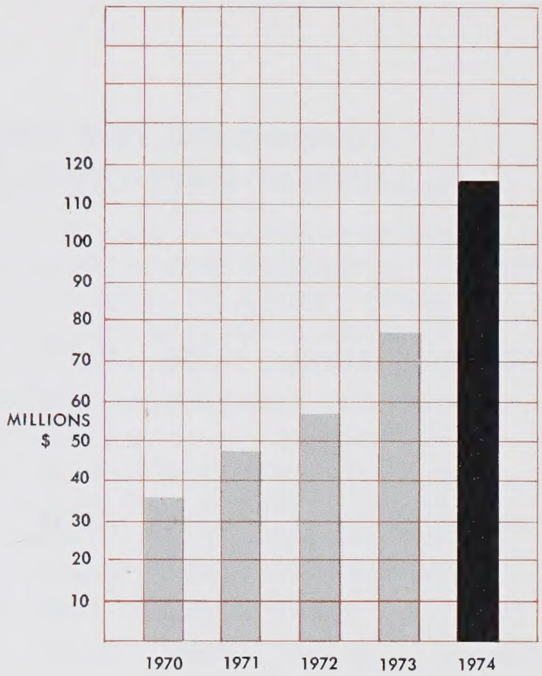
COMBINED FIVE-YEAR SUMMARY
(Dollar amounts expressed in $000's)

BALANCE SHEET		1974	1973	1972	1971	1970
Leases receivable	$	115,008	77,140	57,288	45,977	36,159
Allowance for losses	$	1,803	1,219	1,074	814	577
Allowance for losses to leases receivable	%	1.6	1.6	1.9	1.8	1.6
Unearned income	$	26,706	17,731	13,625	11,554	8,983
Unearned income to leases receivable	%	23.2	23.0	23.8	25.1	24.8
Estimated residual value of equipment	$	4,896	3,154	2,385	1,818	1,262
Total assets	$	100,869	65,523	48,590	38,127	30,920

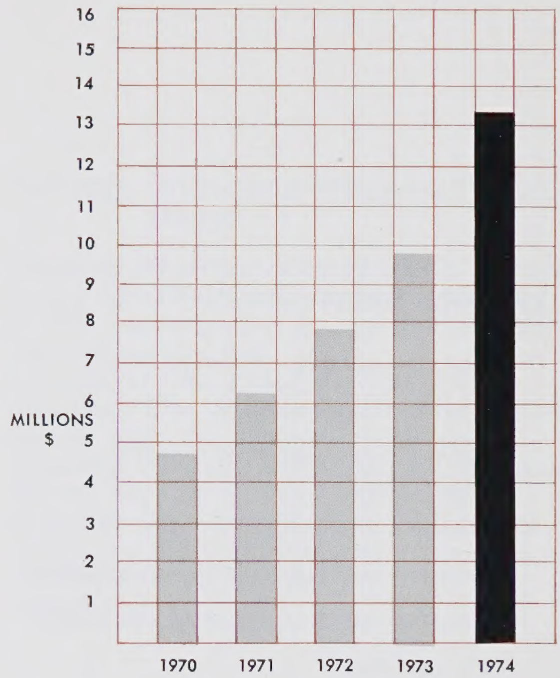
OPERATIONS		1974	1973	1972	1971	1970
Lease income	$	32,936	24,220	18,571	14,450	11,121
Earned income	$	13,339	9,812	7,792	6,264	4,694
Provision for losses	$	1,222	619	519	470	450
Leases receivable added	$	75,443	48,271	32,126	26,184	21,214
Original cost of leased equipment	$	146,033	98,620	73,592	57,803	45,897
Net losses due to bad debts	$	637	475	260	232	301
Net losses to average leases receivable	%	0.66	0.71	0.50	0.56	0.95
Number of employees at end of period		242	212	166	137	105
Number of leases		82,100	63,200	51,300	41,200	32,600
Average original cost of equipment per lease	$	1.78	1.56	1.44	1.40	1.41

The Hamilton Group Limited

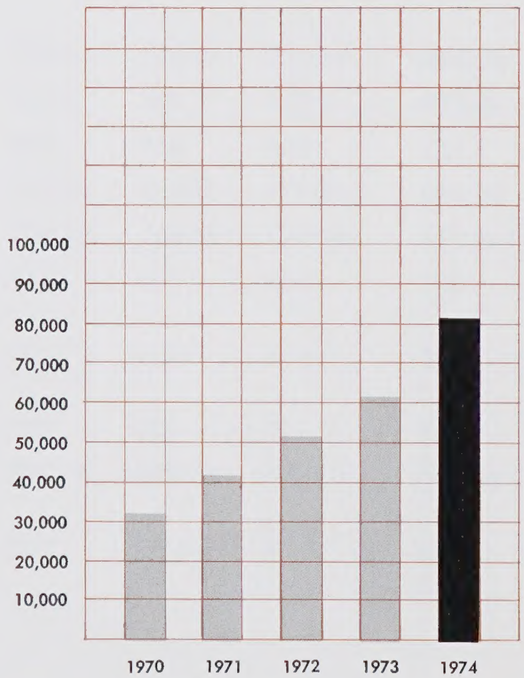
CANADIAN LEASING



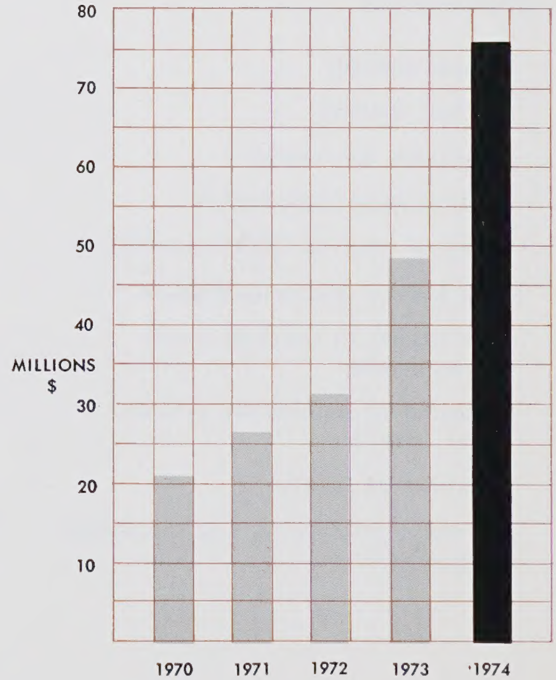
LEASES RECEIVABLE



EARNED INCOME



NUMBER OF LEASES



LEASES RECEIVABLE
ADDED

INTERNATIONAL

UNITED KINGDOM

Hamilton Leasing Limited

During the year interest rates in the United Kingdom reached unprecedented heights. As a result, Hamilton Leasing Limited became unprofitable and was forced to stop dividend payments. Income included in the accounts of The Hamilton Group Limited was $62,493 compared to $338,834 in the previous year.

On August 9, 1974 the ordinary share capital of Hamilton Leasing Limited was increased from £1,691,250 to £5,091,250 by the subscription at par of 3 million new £1 Ordinary Shares and the conversion of a £400,000 convertible subordinated loan into 400,000 £1 Ordinary Shares.

With the completion of this capital increase, Hamilton Leasing Limited has become a subsidiary of Industrial and Commercial Finance Corporation Limited (ICFC), and I.C.F.C. has agreed to lend the company a further £3,000,000 by way of unsecured loan. I.C.F.C. is a wholly-owned subsidiary of Finance for Industry Limited, whose shareholders are the English and Scottish clearing banks and the Bank of England.

The Hamilton Group subscribed for 200,000 of the new shares and made arrangements under which it will be able to maintain a 26% interest in the company on the exercise of options. Upon these options being exercised I.C.F.C. will own just over 60% of the equity and Arbuthnot Latham & Co. Limited, a London Merchant Bank, just over 9%.

I.C.F.C. made their first investment in the company in 1963, when it had an ordinary share capital of £2,000 and was barely a year old. Since 1963 I.C.F.C. have supported the company with preference and ordinary share capital together with subordinated and secured loans and since November, 1970 they have owned approximately 49% of the equity. The decision of I.C.F.C. to make Hamilton Leasing Limited a subsidiary puts all its financial strength behind the company which will enable Hamilton Leasing to improve and increase the leasing service it offers to its customers in the United Kingdom and the Republic of Ireland.

LABHIRE GROUP

The year ended April 30, 1974 was a difficult one for this group. The three-day work week in the United Kingdom made equipment rental very unattractive and the utilization of equipment inventory dropped significantly. This market will gradually be restored in the future.

Labhire also commenced its European expansion by setting up two new branches on the continent. In order to get established, it was necessary to first locate and lease premises and then hire staff before equipment could be acquired for rental. These two locations thus created expenses prior to being able to commence effective business operations. These expenses, amounting to $204,597, have been written off as they were incurred.

MEXICO

Impulsora de Equipos de Oficina (IEOSA)

IEOSA had an exceptional year including a substantial increase in net income. Leases receivable increased during the seven months from $12,163,000 at September 30, 1973 to $17,448,000 at April 30, 1974. The shorter fiscal period was planned in order that the Company's year end would coincide with that of Hamilton Group.

INTERNATIONAL

Overall results were well ahead of budget. New receivables added in the seven month year were up 60% over the previous fiscal year on a pro-rata basis, net losses as a percentage of average leases outstanding were only 0.2% compared to 1.3% in the last fiscal year, and overdue accounts were less than Canadian experience.

The forecast for the present fiscal year is for continued expansion. The volume of new credit-worthy business appears restricted only by IEOSA's ability to service the apparent demand. However, the cost of borrowed funds has increased at a rapid rate, on a basis similar to the rest of the world, and collection problems have also increased operating expenses. Despite the negative factors, it is anticipated that our Mexican operations will show a substantial increase in net profit during the fiscal year ending April 30, 1975.

Hamilton Group has retained a 70% ownership of IEOSA. However, the Mexican Government's announced policy of having all corporations at least 50% Mexican owned, will encourage IEOSA to find a Mexican financial partner, which will reduce Hamilton Group's interest to less than 50% and which will relieve Hamilton Group of the responsibility of finding the necessary debt to finance IEOSA's rapid growth.

INTERNATIONAL

HAMILTON LEASING LIMITED
(all figures in 000's of pounds sterling)

INCOME AND DIVIDENDS	11 Months Ended April 30,	Year ended May 31			
	1974	1973	1972	1971	1970
Lease income	12,723	11,369	7,361	5,281	4,008
Income before taxes	278	852	731	529	290
Provision for deferred taxes (note)	(133)	403	—	—	—
Net income	(145)	449	731	529	290
Preference dividends	15	39	49	50	51
Earnings available for common shareholders	(160)	410	682	479	239
Common dividends	—	188	216	136	—
Retained earnings	118	222	466	343	239

SHAREHOLDERS' EQUITY					
Issued capital:					
Common shares	1,691	1,691	1,353	1,128	685
Preference shares	830	500	500	500	500
Reserves and retained earnings (note)	118	278	1,130	508	456
Total shareholders' equity	2,639	2,469	2,983	2,136	1,641

Note: In the year ended May 31, 1973 the amount of £736,000 was transferred from Retained Earnings to Deferred Taxes Payable.

The Hamilton Group Limited

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
April 30, 1974
with comparative figures for 1973

ASSETS

	1974	1973
Cash and short term deposits	$ 4,140,719	$ 5,857,995
Leases receivable (notes 2 and 6)	132,455,999	84,884,388
Mortgages receivable	12,026,880	8,227,566
Allowance for losses	(2,323,851)	(1,502,160)
Unearned income (note 2)	(32,354,103)	(20,259,777)
Estimated residual value of property and equipment (note 2)	5,632,783	3,483,083
Equipment purchased for lease commitments, at cost	4,341,308	3,421,335
Notes and accounts receivable	3,025,439	2,434,662
Inventories (note 3)	286,201	146,698
Real estate held for sale, at cost	83,451	64,671
Prepaid expenses and deposits	238,621	108,687
Investments and advances (note 4)	4,333,742	3,561,859
Property, plant, equipment and improvements (note 5)	4,429,618	3,603,990
Deferred financing expenses less amounts written off	102,738	124,261
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	1,460,147	1,508,614
	$137,879,692	$95,665,872

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
April 30, 1974
with comparative figures for 1973

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Short term secured debt	$ —	$ 3,955,200
Short term unsecured debt	89,117,289	60,130,421
Notes and accounts payable and accrued charges	7,017,950	5,152,376
Income and other taxes payable	49,662	163,164
Long term secured debt (note 6)	2,048,463	3,784,219
Long term unsecured debt	10,420,808	—
Subordinated funded debt (note 7)	10,567,984	8,033,800
Mortgage payable (note 8)	1,493,781	—
Deferred income taxes	2,847,585	1,935,883
Minority interests in subsidiary companies	732,363	503,768
Shareholders' equity:		
Capital stock (note 9)		
5% first preferred shares, Series A	203,300	210,300
7½% second preferred shares	—	1,300,000
Common shares	6,501,337	3,901,337
	6,704,637	5,411,637
Retained earnings	6,688,271	6,407,055
Contributed surplus	190,899	188,349
Total shareholders' equity	13,583,807	12,007,041
Contingent liabilities and commitments (note 10)		
	$137,879,692	$95,665,872

On behalf of the Board:

W. H. YOUNG, Director

A. B. YOUNG, Director

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended April 30, 1974
with comparative figures for 1973

	1974	1973
Amount at beginning of year	$ 6,407,055	$ 5,268,423
Add:		
Net income	1,092,443	1,351,812
Transfer of appropriation for possible loss on textile leases	—	475,000
	7,499,498	7,095,235
Deduct:		
Dividends:		
First preferred shares, Series A	10,228	11,263
Second preferred shares	118,961	97,500
Common shares	682,038	579,417
	811,227	688,180
Amount at end of year	$ 6,688,271	$ 6,407,055

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1974
with comparative figures for 1973

	1974	1973
Amount at beginning of year	$ 188,349	$ 182,787
Discount on redemption of preferred shares of the company and a subsidiary	2,550	5,562
Amount at end of year	$ 190,899	$ 188,349

CONSOLIDATED STATEMENT OF RESERVE FOR POSSIBLE LOSS ON TEXTILE LEASES
Year ended April 30, 1974
with comparative figures for 1973

	1974	1973
Amount at beginning of year	$ —	$ 475,000
Appropriated from consolidated retained earnings	—	—
Transferred to consolidated retained earnings	—	475,000
Amount at end of year	$ —	$ —

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1974
with comparative figures for 1973

	1974	1973
Gross income (note 11)	$40,213,916	$28,377,074
Income before the following	$31,352,855	$20,663,156
Recovery of cost of leased property	20,680,115	14,072,333
Cost of borrowed money including $2,937,623 (1973; $897,237) on indebtedness initially incurred for a term exceeding one year	8,689,099	3,923,084
Depreciation and amortization	238,679	277,711
	29,607,893	18,273,128
Operating income	1,744,962	2,390,028
Investments:		
Income	418,902	474,536
Gain (loss) on revaluation (net)	(233,508)	74,144
Amortization of goodwill	(63,455)	(45,204)
Development expenses of Labhire Group (note 1)	(204,597)	—
	(82,658)	503,476
Profit on disposal of fixed assets	154,478	34,410
Income before income taxes, minority interests and extraordinary items	1,816,782	2,927,914
Income taxes (note 12):		
Current	356,000	498,000
Deferred	455,000	604,000
	811,000	1,102,000
Income before minority interests and extraordinary items	1,005,782	1,825,914
Minority interests	(60,339)	(21,215)
	945,443	1,804,699
Extraordinary items:		
Loss on textile leases and investments less deferred income taxes of $330,000	—	452,887
Income tax credits arising from prior years' losses	147,000	—
Net income	$ 1,092,443	$ 1,351,812
Earnings per share (note 13):		
Income before extraordinary items	$ .32	.76
Net income	.38	.56

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

April 30, 1974
with comparative figures for 1973

	1974	1973
Funds provided:		
Net income	$ 1,092,443	$ 1,351,812
Provision for losses	1,239,804	679,523
Depreciation and amortization	238,679	277,711
Amortization of goodwill	63,455	45,204
Deferred income taxes	455,000	274,000
Funds provided from operations	3,089,371	2,628,250
Increase in short term unsecured debt	28,986,868	58,575,421
Increase in long term unsecured debt	10,420,808	—
Increase in subordinated debt	2,534,184	1,746,745
Increase in liabilities other than borrowings	1,752,072	1,942,317
Proceeds from first mortgage (net)	1,493,781	—
Proceeds from issue of second preferred shares	1,300,000	—
Proceeds from issue of common shares	—	334,544
Minority shareholders' interests in subsidiary companies	228,595	503,768
Other (net)	374,460	566,671
	$50,180,149	$66,297,716
Funds used:		
Increase in leases receivable	$47,571,611	$25,535,075
Increase in residual values	2,149,700	978,056
Net losses	617,553	251,140
Increase in unearned income	(12,094,326)	(5,882,704)
Funds invested in leases receivable	38,244,538	20,881,567
Increase (decrease) in cash and deposits	(1,717,276)	3,239,046
Increase in mortgages receivable	3,799,314	8,227,566
Increase in accounts receivable	590,777	1,599,639
Increase in equipment purchased for lease commitments	919,973	1,590,552
Additions to fixed assets (net)	1,064,307	2,266,499
Increase in investment in other companies	771,883	1,124,663
Decrease in short term secured debt	3,955,200	23,372,106
Decrease in long term secured debt	1,735,756	1,737,342
Redemption of preference shares	4,450	16,783
Dividends declared	811,227	688,180
Goodwill on purchase of subsidiary companies	—	1,553,818
	$50,180,149	$66,297,716

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

1. The consolidated financial statements include the accounts of the company and all subsidiaries. The accounts of two minor subsidiaries, which have not yet completed a full fiscal year, have been included based on unaudited financial statements. Development costs of these two subsidiaries less income earned have been written off as incurred. All material inter-company balances and transactions have been eliminated.

2. The leasing subsidiaries generally follow the practice of recording gross rentals to be received over the periods of the leases and, except for two subsidiaries, estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. For a relatively small number of leases, where residual values are contractual, unearned income is determined on cost net of such residual values. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in diminishing periodic amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

   The lease contracts provide for equal periodic payments to be received over their terms. The amount of rentals to be received over the next five years and thereafter is summarized below:

	1974	1973
Within:		
One year	$ 43,416,078	$27,142,925
Two years	36,214,035	23,740,977
Three years	26,571,127	17,344,509
Four years	17,316,335	11,117,060
Five years	7,017,560	4,608,803
Thereafter	1,920,864	930,114
	$132,455,999	$84,884,388

3. Inventories are valued at cost for raw materials and at the lower of cost or net realizable value for work in process and finished goods.

4. Investments and advances:

	1974	1973
Investment in shares:		
At equity	$ 995,240	$ 367,549
At cost plus value of stock dividends	1,314,650	1,314,650
At cost	445,472	830,561
At market value	1,227,865	713,329
	3,983,227	3,226,089
Advances	350,515	335,770
	$ 4,333,742	$ 3,561,859

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

5. Property, plant, equipment and improvements:

	1974	1973
Buildings:		
As valued by the Board of Directors on March 23, 1969	$ 391,421	$ 391,421
At cost	2,256,556	1,809,155
	2,647,977	2,200,576
Equipment and improvements:		
As valued by the Board of Directors on April 30, 1973	80,000	147,742
At cost	1,621,229	1,234,790
	1,701,229	1,382,532
Automobiles, at cost	407,813	345,733
	4,757,019	3,928,841
Less accumulated depreciation and amortization	880,692	862,907
	3,876,327	3,065,934
Land:		
As valued by the Board of Directors on March 23, 1969	154,552	154,552
Additions after March 23, 1969, at cost	398,739	383,504
	553,291	538,056
	$ 4,429,618	$ 3,603,990

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

6. Two leasing subsidiary companies are authorized to issue various series of secured notes and debentures in unlimited amount but only upon and subject to the conditions and limitations as set forth in Trust Indentures dated December 1, 1964 and October 1, 1965 both as subsequently amended. Equipment leases having an aggregate value of $30,092,632 have been deposited with the Trustee as security for the notes and debentures.

   Long term secured debt (payable by subsidiary companies):

Maturing in year ending April 30	Including amounts payable in U.S. funds of	Rate %	1974	1973
Notes:				
1974	$ —	10-3/4	$ —	$ 102,531
1975	—	10-3/4	—	642,531
1976	—	10-3/4	—	307,594
Senior notes:				
1978	300,000	6-1/2	323,063	403,563
1984	—	6-3/4	1,247,000	1,268,000
First series debentures:				
1975	—	7-1/2	—	265,000
1976	—	7-1/2 - 7-3/4	—	275,000
1969 debentures:				
1985	—	8-1/2	230,000	250,000
1985	230,000	7-1/2	248,400	270,000
			$ 2,048,463	$ 3,784,219

   The 1969 debentures require annual sinking fund payments of $20,000 and $20,000 U.S. on July 1 in each of the years 1974 to 1983 inclusive and may be redeemed at the company's option at a premium of 10% to June 30, 1979, reducing by 2% annually thereafter.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

7. Subordinated funded debt:

	1974	1973
6½% Subordinated Debentures Series A maturing June 1, 1980 of which $50,000 are required to be retired by way of sinking fund on June 1, in each of the years 1974 to 1979 inclusive. The debentures are redeemable at the company's option at a premium of 2½% to June 1, 1974 reducing by ½ of 1% annually thereafter to no premium after June 1, 1979	$ 1,200,000	$ 1,250,000
8% Subordinated Serial Debentures Series B maturing as to $29,500 U.S. on June 1 and December 1 in each of the years 1974 to 1977 inclusive and June 1, 1978 and as to $28,000 U.S. on December 1, 1978. The debentures are redeemable at the company's option at the principal amount plus costs of purchase not exceeding ½ to 1% ($293,500 U.S.)	316,980	380,700
Due November 16, 1976 (U.S. funds $282,353) repayable $47,059 U.S. semi-annually 8%	304,641	406,187
Junior subordinated notes payable due August 1, 1979 maturing in equal annual instalments on August 1, 1973 to 1979 inclusive:		
8¼%	131,250	153,125
9%	644,925	752,413
8½% Senior subordinated debentures maturing in 1986 repayable in equal semi-annual instalments of $225,660, including principal and interest, commencing June 15, 1977	3,000,000	3,000,000
8.45% Senior subordinated debentures maturing in 1989 repayable in equal semi-annual instalments of $225,165, including principal and interest, commencing September 30, 1979	3,000,000	—
9% Subordinate notes payable maturing annually in equal amounts of $250,000 commencing August 1, 1974	1,000,000	1,000,000
7% Debentures maturing April 1, 1977 U.S. $100,000	107,688	134,875
7% Debentures maturing August 1, 1978	193,500	216,000
6½% Sinking fund debentures, ranking equally with the 7% debentures:		
Due February 1, 1975	447,500	498,000
Due February 1, 1976	221,500	242,500
	$10,567,984	$ 8,033,800

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

8. First mortgage, due July 1, 1998, with interest at 8⅞%, payable in equal monthly instalments of $11,763 including principal and interest.

9. Capital stock:

	1974	1973
First preferred shares issuable in Series of a par value of $100 each. Authorized 39,080 shares; issued 2,033 shares, 5% cumulative redeemable sinking fund first preferred shares Series A after redemption of 70 shares during the year	$ 203,300	$ 210,300
7½% cumulative redeemable convertible second preferred shares of a par value of $10 each. Authorized 390,000 shares; issued 260,000 shares, converted during the year to common shares	—	1,300,000
Common shares of no par value. Authorized 7,500,000 shares; issued 3,020,850 shares including 780,000 shares issued during the year on the conversion of 260,000 second preferred shares	6,501,337	3,901,337
	$ 6,704,637	$ 5,411,637

The first preferred shares, Series A are redeemable at $101 plus accrued and unpaid dividends. The company is required to provide $15,000 (or less in certain circumstances) annually for the redemption of preferred shares which provision was fulfilled for the current year.

Under the terms of a share purchase agreement dated December 16, 1971 the 130,000 unissued 7½% second preferred shares are to be issued for cash to be delivered and taken up on December 31, 1974.

Each 7½% cumulative redeemable convertible second preferred share is convertible at the option of the holder thereof at any time on or prior to December 31, 1981 into fully paid and non-assessable common shares of the capital stock of the company at the initial conversion rate of three common shares for each second preferred share tendered for conversion. Each holder of a second preferred share is entitled at all general meetings of shareholders of the company to three votes for each second preferred share held by him.

The company may redeem at any time after December 31, 1976 the second preferred shares, in whole or in part, on payment for each such share to be redeemed the amount paid up thereon together with an amount equal to accrued and unpaid dividends.

On January 1 in each of the years 1982 to 1991, both inclusive, the company shall set aside certain amounts as a sinking fund for the redemption of the second preferred shares.

390,000 common shares have been reserved for the future conversion of the 130,000 second preferred shares authorized and unissued, such reservation being irrevocable prior to December 31, 1981.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

79,800 common shares have been reserved for issuance under an employees' stock purchase plan, of which 18,000 have been allocated under a stock option plan.

At April 30, 1974, 5,000 common shares of a subsidiary were reserved for issuance to the holders of common share purchase warrants at a price of $4 per share if purchased on or before August 15, 1974 and at $8 per share thereafter if purchased on or before August 15, 1979 when they expire.

10. Contingent liabilities:

The Department of National Revenue has questioned the deductibility of certain rental payments made under sale and lease back transactions for the tax years 1964 to 1968 inclusive. These transactions commenced in 1962 and were accepted by the Department for that year and 1963. If re-assessments are made the additional income taxes after adjusting capital cost allowances will be approximately $200,000 with interest. The company will object to any such re-assessment as in the opinion of management and counsel no additional taxes are exigible.

A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which, in its opinion, more than offset such claim. The ultimate liability for such taxes, if any, cannot yet be determined.

Commitments:

Forward exchange contracts for $27,050,000 U.S. (1973; $16,000,000), maturing on various dates to October 31, 1974.

Certain leasing subsidiaries are committed to the purchase of equipment to be leased of approximately $10,040,000 (1973; $7,184,000).

11. Gross income arises from:

	1974	1973
Lease rentals and related income	$37,625,786	$24,610,526
Sales	1,142,368	2,885,554
Interest from mortgages and agreements of sale	1,445,762	880,994
	$40,213,916	$28,377,074

12. The company and certain subsidiaries have losses for tax purposes of approximately $2,500,000, expiring $410,000 in 1977, $810,000 in 1978 and $1,280,000 in 1979, available for application against taxable income of future years.

13. Earnings per share:

If it were assumed that the 260,000 7½% cumulative redeemable second preferred shares were converted on the basis of three common shares for every preferred share held as of May 1, 1973 there would have been no material dilutive effect on earnings per share.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1974

14. Remuneration of officers and directors:

    In 1974 the aggregate remuneration as directors of the company's thirteen directors amounted to $10,800 (1973; $8,350); the aggregate remuneration as officers of the company's seven officers amounted to $248,300 of which $18,300 was paid by a subsidiary (1973; $240,440); during 1974 and 1973 five officers were also directors.

15. Current assets and liabilities arising in foreign currencies have been translated at the rates of exchange in effect at April 30, 1974. Other foreign currency items have been translated at the rates in effect when the transactions occurred.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited and subsidiaries as of April 30, 1974 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination of the financial statements of The Hamilton Group Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the Mexican subsidiaries. The assets of these subsidiaries represent approximately 10% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Hamilton, Ontario,
June 18, 1974

BANKERS

CANADA	Bank Canadian National The Bank of Nova Scotia Canadian Imperial Bank of Commerce The Mercantile Bank of Canada The Royal Bank of Canada The Toronto-Dominion Bank
UNITED KINGDOM	Arbuthnot Latham & Co. Limited Atlantic International Bank Limited Charterhouse Japhet Limited Hill Samuel & Co. Limited International Commercial Bank Limited London Multinational Bank Limited
UNITED STATES OF AMERICA	American Express International Banking Corporation Bank of Virginia International Chemical Bank The Detroit Bank and Trust Company The Fidelity Bank The First National Bank of Chicago Irving Trust Company Marine Midland Bank—Western Mellon Bank The Philadelphia National Bank United California Bank Wachovia Bank and Trust Company Wells Fargo Bank

The Hamilton Group Limited